

FIRST ANNUAL REPORT 1965
MASSACHUSETTS BAY TRANSPORTATION AUTHORITY





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To:

His Excellency the Governor,
Advisory Board to the Massachusetts Bay
Transportation Authority, and
The General Court.

In accordance with the requirements of Section 5 (h) of Chapter 161A of the General Laws, as modified by Chapter 650 of the Acts of 1965, the Directors of the Massachusetts Bay Transportation Authority herewith render the first report of the Authority which covers the results of operations for the fiscal period August 4, 1964, through July 31, 1965.

BOARD OF DIRECTORS

Gov. De. Ref.
*HE449/
B75 M3
1964/65 -
1972

General James McCormack, *Chairman*

William J. Fitzgerald

Robert P. Springer

Philip Kramer

George L. Anderson

THE END OF THE OLD

For the purpose of clarifying the financial transition from the old Metropolitan Transit Authority to the Massachusetts Bay Transportation Authority, this report will deal briefly with pertinent data covering the period, January 1 through August 3, 1964, a period representing the final months of existence of the former Metropolitan Transit Authority. Such data, in summary form, is relevant because it affects fourteen of the 78 communities in the Massachusetts Bay Transportation Authority district and the costs involved are directly reflected in the local tax rates of the fourteen cities and towns.

Summary:

The total cost of MTA service for the period of seven months and three days ending at midnight on August 3, 1964, amounted to \$35,904,231.82 while total income was placed at \$23,881,852.15. The difference between cost and income is \$12,022,379.67 which was the reportable deficit for the period of time in 1964 under examination here.

Therefore, the assessment in 1965 upon the fourteen communities of the old MTA is as follows:

<i>Excess of Cost of Service over Income</i>	\$12,022,379.67
<i>Interest Charged by State Treasurer on Temporary Borrowings</i>	350,323.72
<i>Expenses of Boston Metropolitan District</i>	16,000.00
TOTAL	\$12,388,703.39
<i>Less Pupils' Reimbursement, Chapter 71, Section 7B</i>	1,068,793.20
Net Assessment	\$11,319,910.19

THE BEGINNING OF THE NEW



Left to right: Philip Kramer, General James McCormack, Governor Endicott Peabody, Robert P. Springer, George L. Anderson, William J. Fitzgerald

At approximately 5 p.m. on Monday, August 3, 1964, General James McCormack, William J. Fitzgerald, Robert P. Springer, Philip Kramer and George L. Anderson raised their hands in the Senate Chamber of the Massachusetts State House and received the oath of office from the then Governor Endicott Peabody.

Thus the Massachusetts Bay Transportation Authority, voted into law in June by the General Court, became a going concern, charged with implementing a new concept in mass transportation of extraordinary impact for Boston and the other 77 communities making up the metropolitan area, an area embracing upwards of two and one-half million persons, approximately half the Commonwealth's total population.

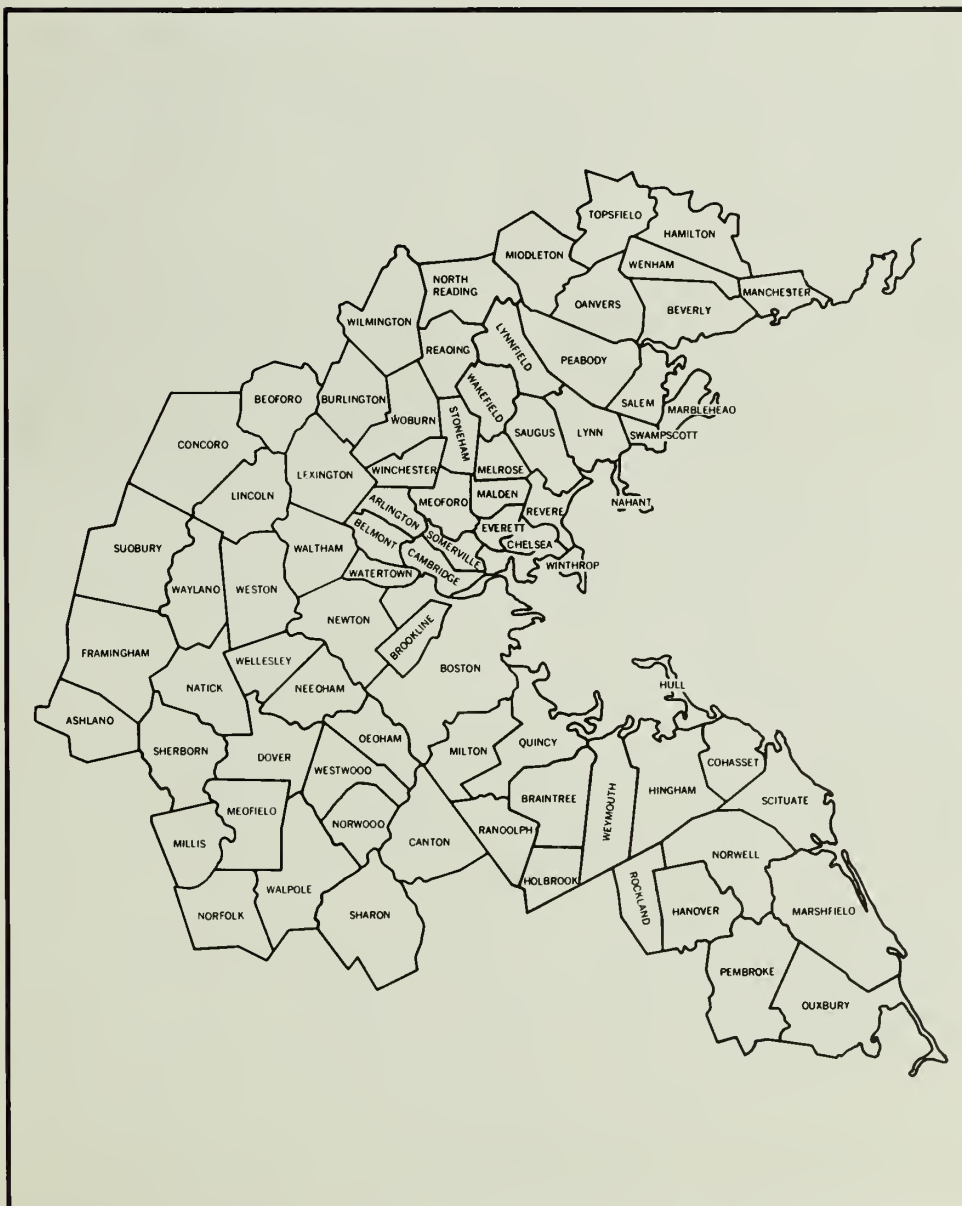
The creation of the new Authority drew the attention of the United States transit industry and it prompted the then President of the American Transit Association to describe the Massachusetts Bay Transportation Authority bill in the following manner: "... unquestionably the most daring and provocative legislative action ever taken by a state government in support of transit."

A vital United States industry officially recognized a wise and studied action by the Massachusetts General Court.

The Board of Directors of the new transit authority faced a broad and far-reaching charge, phrased in the legislation as follows:

"The Authority shall have the duty to develop, finance and operate the mass transportation facilities and equipment in the public interest, consistent with the purposes and provisions of this chapter, and to achieve maximum effectiveness in complementing other forms of transportation in order to promote the general economic and social well-being of the area and the Commonwealth."

AUTHORITY'S DISTRICT



THREE SPECIFICS GROWING OUT OF A LEGISLATIVE MANDATE

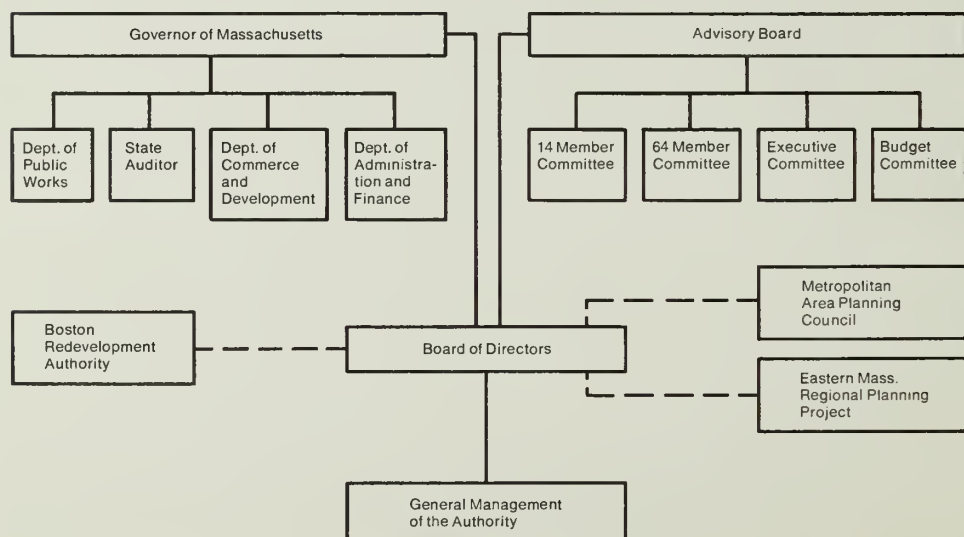
This report is a requirement of the Massachusetts Bay Transportation Authority Act, hereinafter called the Act, specifying that it shall include "a description of the organization of the Authority, its recommendations for legislation and its comprehensive program for mass transportation as most recently revised."

The section below deals with these specifics:

Organization

In the period covered by this report, a comprehensive overhaul of the organization structure of the Authority was one of its chief aims; a task that presented a variety of complexities and subtleties in the transition from the old to the modern and new.

T ORGANIZATION OF CONTROL



Accordingly, the Board of Directors approved in principle recommendations contained in a report dealing with a Top Management and Organization Study of the Metropolitan Transit Authority for the Boston Regional Planning Project by Booz-Allen & Hamilton, Inc., Management Consultants.

The present Directors are grateful that this work was put in motion by the MTA Trustees, for after some revision the findings of the report were applicable, in large measure, to the new agency.

Recommendations contained in the report began to be implemented and a follow-up contract was signed with the same firm from which evolved (in a period beyond the scope of this report) an organization and cost reduction program unique in Boston transit annals.

Much has been accomplished in the area of organization, and much more was to be brought about in the period between the closeout of the new Authority's first fiscal period and the time this report reaches its readers. This progress will be reported in the second fiscal accounting by the Authority.

Legislation

A major piece of legislation designed to amortize the net cost of service of the Massachusetts Bay Transportation Authority from August through December 1964, and place the Authority on a new fiscal year basis was filed in behalf of the Authority. This legislation was passed by the General Court and signed by the Governor.

Under the Act, which provided for a calendar operation, there was to be no assessment levied in 1965 against the 78 cities and towns for the net cost of service in 1964. Rather, the assessment was to await an accumulation of the net cost of service covering the August through December period in 1964 and the full 12-month calendar period of 1965.

Consequently, each of the 78 cities and towns, although free of any assessment in 1965 based on the new Authority's net cost of service in 1964, faced the distressing prospect of assessments in 1966 to meet 17-months of accrued net cost of service. In consultation with the cities and towns most heavily affected, the Authority filed corrective legislation which, as noted, became law. The legislation will:

Establish through 1970, fiscal periods upon which the Authority's net cost of service will be based. The first fiscal period covers the 12 months from August 4, 1964 through July 31, 1965. Each of the five ensuing fiscal periods will cover a 13-month cycle.

The change-over will end on December 31, 1970, when the net cost of service incurred by the new Authority in 1964 will have been amortized.

It was to be expected that a law of such scope and complexity as that now governing the Authority would require amendments and perfecting changes in order that the Authority might more effectively perform the tasks and duties ahead. In this respect, and after consultation with the Advisory Board, staff personnel, and others, the Authority made a number of additional filings with the Legislature.

The petitions of the Authority need not be presented in this document in their precise and necessarily lengthy form. They are individually and collectively important to the Authority's business and they deal with:

- a. Certain technical errors in the enabling legislation.
- b. Exemptions as enjoyed by the MTA relating to off-street parking.
- c. Definitive powers in matters of construction, extensions, modifications and improvements of mass transportation facilities, land-takings, easements, rights-of-way and other matters—powers which previously were held by the MTA and the Boston Transit Commission.
- d. Authorizations to pay expenses of the Advisory Board for clerical and stenographic work within a fixed, annual amount.
- e. Clarification of the Act as it relates to the Authority's contractual powers.
- f. Clarification of that section of the Act which exempts the Authority from jurisdiction of the Department of Public Utilities with respect to providing transportation in its area to make it clear that the Authority is also exempt from the jurisdiction of local authorities.

- g. Amplification of powers of the Authority in advertising real estate for sale to include re-advertising for bids and the sale of real estate without competitive bidding when no satisfactory bids are obtained.
- h. Clarification of the Authority's powers in awarding contracts for concessions and leases, the rejection of bids and re-advertising, and the awarding of contracts when no satisfactory proposals are obtained, all designed to provide maximum protection to the Authority and long-term concessionaires and lessees.
- i. An amendment to the provisions establishing the Authority's Board of Directors under which a maximum of public protection would be provided in respect to quorums and majority votes.
- j. Payment to the Authority of school transportation allowance.
- k. The repeal of an old law requiring the licensing of conductors, drivers and dispatchers of street railway cars in Boston.

Closing this list of Legislative proposals is a bill filed by the State Treasurer at the request of the Authority. Under its terms the State Treasurer would be given additional latitude in respect to temporary borrowings for advance payments to the Authority on account of the net cost of service. This legislation has been adopted by the General Court and approved by the Governor.

Since, at the time of making this report, the 1965 Legislature remains in session and has not finally disposed of some of the Authority's petitions for legislation, the Authority's legislative recommendations for the 1966 session of the legislature are not yet complete. When they are completed, a summary of what they include will be made available to the Advisory Board and the public.

Comprehensive Program for Mass Transportation Development

In its first fiscal year the Authority undertook to prepare, as required by law, a comprehensive program for construction, extension, modification, and improvement of the mass transportation facilities existing in its 78 city and town area. The program was scheduled for completion by the end of 1965.

Prior to the adoption of the first official comprehensive program, engineering and construction was proceeding on several projects with the approval of the Advisory Board, as allowed under the statute.

The comprehensive program will include a long-range development plan, an implementation schedule, and comprehensive financial estimates. Planning studies for the program were initiated soon after the Authority came into existence and included cooperative, coordinated planning with the Department of Public Works, the Department of Commerce and Development, the Metropolitan Area Planning Council, and other related agencies. The Boston Regional Planning Project, an ad hoc inter-agency long-range planning activity, was the prime catalytic means of achieving the coordinated studies.

Recognition of the need for community-wide, comprehensive cooperative development efforts will enable the Authority to comply with the Commonwealth's legal requirements, to meet criteria for receiving maximum Federal and State financial assistance, and to make better business decisions of lasting value to the cities and towns and, indeed, to the Commonwealth as a whole.

The Authority moved early to establish a planning capability to guide the planning of the quarter-billion dollar expansion program and to develop new services. During the period covered by this report a professional planning staff was being recruited and developed and the necessary research and planning studies were authorized.

Significantly, it was determined that modern marketing practices were needed and that marketing should be the basis for much of the system service planning and development. Thus, the initial planning office was tentatively designated as "Planning, Marketing and Development" in order that engineering, city planning, economic, and other planning functions be integrated with market research.

Other specific functions to be carried out by the planning office are development and research studies seeking technological improvements on overall systems of transportation, rolling stock

and other equipment; the development of system plans for express and local service; feasibility studies of alternative route locations and kinds of service; analyses of a variety of fare structures; and the establishment of performance standards for service and general design.

As part of the overall regional planning process, the new Authority was invited to join the policy committee of the Boston Regional Planning Project. This will enable the Authority to contribute to long-range policy planning in a most meaningful way.

Also, in the fall of 1964, the Authority became part of a five agency planning group in a study of the Southwest Transportation Corridor where there was a need to coordinate the location and design of Interstate Route 95, the future of the New Haven Railroad's main line, and a new transit project involving the eventual razing of the Washington Street elevated structure and extension of express service to communities beyond Forest Hills.

In June of 1965 following months of intensive investigations, analyses, and discussions of the various modes of rapid transit available for the Authority's high speed extension to the South Shore, with particularly close scrutiny given the feasibility of monorail, it was announced that the Authority had determined to use a duo-rail rapid transit system.

By this decision, which was supported by an engineering firm that had studied the problem for more than six months, it is believed that the Authority will be able to provide the best available express service mass transportation system for the South Shore area.

To this purpose the General Manager was authorized to prepare the necessary documents relating to the South Shore express service extension project, for submission to the Advisory Board for its approval under the appropriate statutory requirements, and to take such additional steps as may be necessary to advance the project to its operational stage at the earliest possible date.

Elsewhere in this report the Board of Directors will deal in some detail with significant adjuncts to the planning process which include an ambitious downtown station modernization program. A \$9 million project, two-thirds of the funds for this undertaking will be received by the Authority in the form of Federal assistance.

1965 WORK PROGRAM FOR PLANNING													
ACTION PROJECTS (SOUTH SHORE, ETC.)													
REVIEW EXISTING SERVICE AND MARKET													
STUDY ALTERNATE EXTENSIONS													
SYSTEM TRAFFIC FORECASTS													
EVALUATE ALTERNATIVE EXTENSIONS													
COMPLETE MASTER PLAN													
CONTINUING COMPRE- HENSIVE PLANNING													
1965	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	1966

A FINANCIAL SUMMARY AND AN EXPLANATION OF TWO CATEGORIES OF SERVICE

Under the Authority's new fiscal operation the first assessment against the 78 communities will be levied, in the year 1966 and the assessment period will cover the 12-month operating span from August 4, 1964, through July 31, 1965.

In this connection it is necessary to offer in some detail the method of assessing Massachusetts Bay Transportation Authority net cost of service, a rather complicated but workable formula to which reference is made under Sections 8, 9, 10, 11, and 12 of Chapter 161A.

Express Service

Definition includes: Main Line Elevated, Cambridge-Dorchester Extension, East Boston Rapid Transit, Highland Branch, Central Subway District, Mattapan High Speed Line and commuter railroad passenger service.

The net cost of express service is assessed by a formula whereby seventy-five percent of the cost is assessed upon the 78 cities and towns based on a commuter count made by the United States Department of Commerce, Bureau of Census. "Commuter" means all persons whose place of work is in Boston or Cambridge and whose residence is one of the 78 cities and towns regardless of the means of transport of such persons to and from their places of work.

Assessment of the remaining twenty-five percent is placed upon those cities and towns which have express service stations including railroad stations, based on a count of the number of riders boarding at each of these stations.

The application of the foregoing formula excludes that part of the net cost of service which represents the debt service on obligations of the MTA issued for express services purposes which is assessed upon the fourteen cities and towns in proportion to the assessment of each such city or town in the same year under the provisions of the law.

Local Service—Original Fourteen Cities and Towns

Definition includes: All bus, trackless trolley and surface car lines while operating on streets or reservations.

The method for assessing the net cost of local service is as follows: Ninety-five percent of the assessment will be based on the old MTA percentage formula; the remaining five percent will be based on the determination of loss in each of the 14 cities and towns. This formula decreases from ninety-five percent to fifty percent in annual five percent multiples until 1974, while conversely, the assessment based on where the loss occurs increases from five percent to fifty percent, likewise in annual five percent multiples, until 1974.

Beginning with the assessment in 1976, the old MTA formula will be eliminated and fifty percent of the net cost of local service will be assessed based on the proportion of population within the 14 cities and towns; the remaining fifty percent will be apportioned to the cities and towns where the losses are incurred.

Local Service—Sixty Four New Cities and Towns

The net cost of local service will be assessed upon the 64 cities and towns with fifty percent on the basis of population and fifty percent to be assessed upon the cities and towns where the loss is incurred.

A Summary of the Net Cost of Service from August 4, 1964 through July 31, 1965

Total income to the Authority for the period was \$39,835,263.29.

Wages and fringe benefits were placed at \$44,141,241.25. The latter cost, along with other items and various fixed charges brought total expenses for the period to \$60,675,603.27.

The difference between total income and total expenses is \$20,840,339.98 which represents the cost of service in excess of income for the fiscal period.

This latter figure, less state financial contract assistance of \$2,500,000.00 and a State Treasurer's credit of \$657,259.27 brings the net cost of service for the 78 cities and towns of the district to \$17,683,080.71.

(In addition to the Authority's net cost of service, there are three other items to be considered by the 78 communities in their 1966 account settlement with the Commonwealth of Massachusetts. They are shown in the following table.)

<i>Net Cost of Service</i>	\$17,683,080.71
<i>Interest Charged by State Treasurer on</i>	
<i>Temporary Borrowings (Estimated)</i>	398,000.00
<i>Expenses of Boston Metropolitan District</i>	16,000.00
TOTAL	\$18,097,080.71
<i>Less Pupils' Reimbursement</i>	
<i>Chapter 71, Section 7B (Estimated)</i>	1,700,000.00
<i>Net Cost to Communities</i>	\$16,397,080.71

A full breakdown of the Authority's net cost of service, including all elements of cost for the fiscal operation and the apportionment of these costs by both express and local service follows:

**STATEMENT OF NET COST OF SERVICE BY EXPRESS AND LOCAL—
ELEMENTS OF COST FOR THE PERIOD AUGUST 4, 1964 TO JULY 31, 1965**

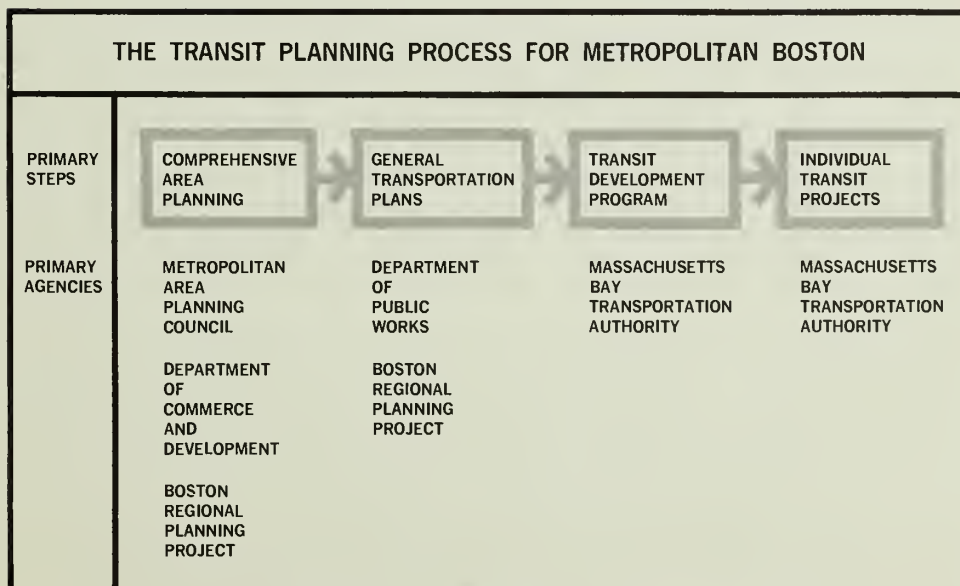
Income:	Express	Local	Total
<i>Revenue from Transportation</i>	\$23,209,710.49	\$15,504,545.79	\$38,714,256.28
<i>Revenue from Other Rwy. Operations</i>	593,998.36	145,434.99	739,433.35
<i>Non-Operating Income</i>	25,168.87	356,404.79	381,573.66
Total Income	23,828,877.72	16,006,385.57	39,835,263.29
<i>Operating Wages and Fringe Benefits:</i>			
<i>Wages</i>	17,645,651.09	20,967,757.59	38,613,408.68
<i>M.B.T.A. Retirement Fund</i>	1,054,076.79	1,237,209.99	2,291,286.78
<i>Social Security Taxes</i>	430,870.09	513,600.52	944,470.61
<i>Workmen's Compensation Insurance</i>	14,220.82	26,171.62	40,392.44
<i>Accident and Sickness Insurance</i>	160,376.98	185,373.33	345,750.31
<i>Group Life Insurance</i>	184,254.29	212,774.33	397,028.62
<i>Blue Cross-Blue Shield</i>	575,875.91	673,940.22	1,249,816.13
<i>Unemployment Insurance</i>	6,022.45	7,088.31	13,110.76
<i>Misc. Pensions, etc.</i>	29,438.46	33,813.08	63,251.54
<i>Uniform and Work Clothes</i>	59,471.38	123,254.00	182,725.38
Total Oper. Wages and Fringe Benefits	20,160,258.26	23,980,982.99	44,141,241.25
<i>Material and Other Items</i>	1,749,207.20	2,487,706.55	4,236,913.75
<i>Injuries and Damages</i>	438,885.27	1,001,739.09	1,440,624.36
<i>Depreciation</i>	329,496.79	160,825.79	490,322.58
<i>Interest on Unfunded Debt</i>	97,052.15	142,702.54	239,754.69
<i>Fuel</i>	905,532.60	711,996.94	1,617,529.54
<i>Taxes (other than included above)</i>	6,995.88	171,864.06	178,859.94
Total Operating Expenses and Taxes	23,687,428.15	28,657,817.96	52,345,246.11
<i>Fixed Charges:</i>			
<i>Interest on Funded Debt</i>	2,907,289.11	1,054,855.26	3,962,144.37
<i>Payment on Funded Debt—B.M.D.</i>	2,367,695.98	1,613,378.58	3,981,074.56
<i>Cambridge Subway Rental</i>	374,571.09	—	374,571.09
<i>Miscellaneous Debits</i>	7,555.31	5,011.83	12,567.14
Total Fixed Charges	5,657,111.49	2,673,245.67	8,330,357.16
Total Current Expenses	29,344,539.64	31,331,063.63	60,675,603.27
Cost of Service in Excess of Income	5,515,661.92	15,324,678.06	20,840,339.98
<i>Less:</i>			
<i>State Financial Contract Assistance</i>	2,500,000.00	—	2,500,000.00
<i>State Treasurer's Adjustment Credit</i>	657,259.27	—	657,259.27
Net Cost of Service—Loss	\$2,358,402.65	\$15,324,678.06	\$17,683,080.71

THE RESPONSIBILITY BEGINS

The Chairman, speaking for himself and his colleagues on the board has said: "Operationally, we are an industry. Our business is mass transportation of all kinds for the more than two million people of our area. We are big business and destined to become much bigger—with all of the implied requirements for executive skill and good business judgment in matters of planning, engineering, construction, personnel management, maintenance and renewal of property and equipment, purchasing, marketing and customer relations, cost control, financial policy and operations, law, and effectiveness in the employment of our human and physical resources.

Our authority to regulate and our duty to sustain private carriers, taken together with our mandate to supply transportation, embraces an unprecedented range of jurisdiction over private and public enterprise."

At 10 a.m. on August 5, 1964 the new Board of Directors of the new Massachusetts Bay Transportation Authority met in open meeting and for the first time addressed itself to the job and to the responsibility.



CAPITAL FINANCING

Important as a professional and far-sighted system of transportation planning was to the Authority when the new Massachusetts Bay Transportation Authority Board of Directors took office in August, it was necessary to fashion, as soon as possible, the tools for bringing about this overriding physical objective.

The means for implementing its program rested, under the law, in an authorization for the issue of \$225 million of bonds, \$60 million of which became available immediately with the remainder to become issuable on completion by the Authority and approval by the Advisory Board of a program of mass transportation for the 78-community area.

In a series of actions demanding most careful inquiry by the Board of Directors, the Authority soon acquired the expertise of both a financial advisor in connection with the marketing of Massachusetts Bay Transportation Authority bonds and bond counsel and negotiated a contract with three investment banking firms for the purpose of underwriting the first issue of Massachusetts Bay Transportation Authority bonds.

At that time, a member of the Board of Directors said: "These people will be selling something besides Authority bonds—they will be selling Massachusetts."

Although the Directors and Counsel for the Authority had no serious doubts as to the constitutionality of the Act, sufficient doubts existed to make it important that an opinion of the Supreme Judicial Court be sought with respect to certain constitutional questions before attempting to issue bonds of the Authority to the financial community. Consequently, the Board requested Governor Peabody to seek an advisory opinion from the Supreme Judicial Court on these constitutional questions. While such questions were pending before the Court, the Board authorized the issue of bond anticipation notes which a group of local banks agreed to buy provided certain conditions were met.

The banks which had undertaken to buy these notes refused, on advice of counsel, to carry out their agreement and, as a result, the Authority brought suit against them seeking a declaratory judgment with respect to constitutional questions which had been raised. The Supreme Judicial Court of the Commonwealth in this proceeding sustained the validity of the notes of the Authority involved in the controversy and the constitutionality of provisions of the Act providing the security therefor. This decision, answering as it does the important constitutional questions involved, has cleared the way for future financing by the Authority.

The Act authorizes the Authority to issue bonds and bond anticipation notes for any one or more of the following purposes:

1. To acquire, design and construct mass transportation facilities for express service (as defined in the Act) and to provide equipment therefor (except rolling stock, garages, yards and shops);
2. Subject to certain limitations contained in the Act, to finance agreements with railroads to provide passenger service to and from Boston extending no later than December 31, 1967;
3. To design and acquire, for itself or for lease to any eligible private company, by purchase or otherwise, mass transportation facilities and equipment to be used to provide local service (as defined in the Act) and to provide relief to any private company, whether by agreement or arbitration award, under the provisions of the Act; and
4. To pay any capital costs of the Authority, including but not limited to costs of rolling stock, garages, yards and shops, whether or not bonds or notes for any such purpose may also be issued under any other of the above provisions.

The Act also authorizes the Authority temporarily to borrow money and issue notes therefor whenever it lacks sufficient cash to make any payments required of it.

CONTRACT ASSISTANCE

The Act also provides for contract assistance by the Commonwealth and authorizes the Authority to enter into contracts with the Commonwealth providing that a portion of the net cost of service shall be paid by the Commonwealth and shall not be assessed upon the cities and towns. Such contract assistance is limited to:

1. The annual debt service on 90% of the bonds issued for the acquisition of facilities and equipment for express service;
2. The annual debt service on 50% of the bonds issued for the acquisition for its own use, or for lease, of facilities and equipment for local service and granting of relief to private companies injured by competition of the Authority;
3. One-half of the cost, but not more than a total of \$5,000,000, to the Authority of its agreements with railroads to provide passenger service to and from Boston extending no later than December 31, 1967; and
4. \$3,000,000 annually (not more than \$750,000 in 1964) to pay interest, principal and sinking fund requirements due upon certain indebtedness of the Metropolitan Transit Authority assumed by the Massachusetts Bay Transportation Authority.

Bonds issued by the Authority which will be entitled to receive contract assistance with respect to the debt service thereon under 1 and 2 above are limited to \$145,000,000.

On December 31, 1964, the Authority and the Commonwealth, acting by and through the Executive Office for Administration and Finance, entered into a Contract for Financial Assistance whereunder there is to be made available to the Authority, upon the terms and conditions prescribed therein, the contract assistance authorized pursuant to the provision of the Act above set forth. This Contract provides that the Contract Assistance payable by the Commonwealth to the Authority thereunder shall be paid from the Cigarette Tax Fund and from any other available funds of the Commonwealth which may be appropriated for the purpose. The aforesaid Cigarette Tax Fund is a fund established by law within the General Fund of the Commonwealth to which a certain portion of the taxes collected upon the sale of cigarettes is allocated and from which certain State aid relating to transportation, including the payments of Contract Assistance to the Authority, is to be paid. This Contract further provides that the Commonwealth shall not be obligated to appropriate funds other than the Cigarette Tax Fund in order to pay Contract Assistance.



Boston and Maine Contract Signing *Above*
 Middlesex and Boston Contract Signing *Below*

THE PRIVATE CARRIER

"Our authority to regulate and our duty to sustain private carriers, taken together with our mandate to supply transportation, embraces an unprecedented range of jurisdiction over private and public enterprise." (Excerpt from a report by the Board of Directors of the Massachusetts Bay Transportation Authority to the Advisory Board.)

In the final month of 1964 the Authority, facing an urgent transportation crisis on two separate levels of private service, ordered the execution of agreements with the Boston and Maine Railroad and the Middlesex and Boston Street Railway Company, the latter a bus operation.

The agreement with the Boston and Maine was dictated both by the need to keep service operating as well as the need to obtain options for future rapid transit extensions—at reasonable cost—from a railroad which was not subject to the Authority's eminent domain powers.

An agreement with the Boston and Maine Railroad kept alive train service for three years (with an additional two-year option) between Boston and the following areas of the Massachusetts Bay Transportation Authority: Beverly, Hamilton, Manchester, Winchester, Woburn, Wilmington, West Concord and the Bedford, Hudson and Reading branches. It also gave options to the Authority to lease or purchase any of the railroad's lines within the Commonwealth over which the railroad operates passenger service.

The agreement calls for an annual subsidization, based on avoidable costs, estimated at approximately \$3 million and presently provides for some increase in service to the communities affected. No separate payment is required for the valuable options.

Within a month the Authority's actions were justified when a train-off order came down from the Interstate Commerce Commission. The Authority's anticipatory judgment prevented cessation of railroad service in the entire northern part of its district.

It is of interest to note that many months before the train-off order by the Interstate Commerce Commission the Authority had encouraged discussions with officials of those communities outside the district which faced curtailment of service.

The Authority is pleased to report that these discussions proved fruitful and eventually a number of communities entered into contracts with the Authority for Boston and Maine service at no cost to the Massachusetts Bay Transportation Authority district.

The situation as regards the Middlesex and Boston was particularly pressing because prior to the Massachusetts Bay Transportation Authority's existence officials of the company expressed the intention of going out of business. The Governor at that time prevailed upon the company to keep its buses in operation holding out the possibility that it might be aided by an Authority such as the Massachusetts Bay Transportation Authority.

After a protracted period of negotiations between the company and the Authority a temporary agreement to maintain these vital services in this highly populous area was executed.

As a result of this agreement a sizable number of commuters in sixteen communities served by the Middlesex and Boston were assured of continuing and uninterrupted service.

The contract became retroactive to August 4, and continued through June 30, 1965; the cost to the Authority over the August through June period was \$188,451.65, and the total amount for the period here reported was \$221,649.00.

Under the terms of the agreement the Authority determines both the level of service and the fare structure; service changes (if any) are to be made only on approval of the Authority and the carrier shall make all books of account available to the Authority. The Authority shall not be obligated to indemnify the Middlesex and Boston for any operating losses incurred in any slowdown, stoppage or strike.

At the expiration of this temporary agreement a longer term and more substantial agreement was formulated by the Company and the Authority.

This new agreement, although executed on August 11, 1965, was made effective retroactively to July 1, 1965, and will continue until June 30, 1967. The details of this new agreement will be covered in the Authority's second fiscal report.

During 1964 the Authority began discussions with the New Haven Railroad, discussions which demanded the most serious attention in view of the worsening traffic situation between Boston and the South Shore.

These discussions, carrying with them enormous legal complexities and conducted in an atmosphere of lively public debate on the subject of which mode of transit level was best suited for the area, were successfully concluded. A few days before the close of this fiscal report the Authority signed an agreement with the New Haven Railroad.



New Haven Contract Signing

The contract was signed at the Authority's Administration Building with General Manager Rush B. Lincoln, Jr., signing for the Authority and William J. Kirk, Trustee, signing for the New Haven Railroad. The highlights of the contract are:

1. Purchase by the Authority of the railroad's Old Colony line from Fort Point Channel to South Braintree for \$2,466,705.
2. Under terms of an annual contract service payment, presently estimated at \$1,200,000 by the Authority, service is guaranteed on New Haven commuter lines now in operation in the Massachusetts Bay Transportation Authority district. These lines are: Boston to Providence as far as Sharon; Boston to Stoughton as far as Canton; Boston to Needham Heights; Boston to Millis and Boston to Norfolk. The Authority also has an option to buy these specific lines and may exercise the option any time before January 31, 1968.
3. The Authority also takes options on the following New Haven rights-of-way: Braintree Junction to Nantasket Junction, approximately 8.11 miles at \$30,102 per mile of right-of-way; Nantasket Junction to Greenbush, approximately 9.51 trackless miles at \$13,282 per mile of right-of-way; South Braintree to the Holbrook-Avon Town line, approximately 5.41 miles at \$30,102 per mile of right-of-way and South Braintree to the Weymouth-Abington town line, approximately 4.7 miles at \$30,102 per mile of right-of-way.

Shortly following the contract signing, the United States District Court in New Haven, Connecticut, gave its full approval.

TRANSIT MANAGEMENT IN 1964-65 AND A LOOK INTO TECHNIQUES OF THE FUTURE

Although the general theme of what is to be said in this section was touched upon earlier under the heading of "Organization", the Directors feel that this report would be incomplete without a fuller explanation of some of the management techniques it is seeking to bring to the new Authority.

Among actions under way when the new Board of Directors took office was a top management study by the management consultant firm of Booz-Allen & Hamilton, Inc.

This study was completed late in the year; it was approved in principal by the Board of Directors and subsequently the Authority began a program of placing specific recommendations into effect.

With the report as a guideline the Authority initiated steps to consolidate the varied legal activities of the system under the office of the General Counsel, it placed greater responsibility in the Treasurer's office in respect to property custodial duties and it put in force the function of Private Carrier Regulation within the Authority's district.

The Authority took cognizance of a critical need to fill new positions recommended by the management team and subsequently found itself awaiting the arrival of a new General Manager to aid in the vital task of selecting qualified personnel to fill these crucial gaps in the system's management structure. The General Manager began his new duties on February 1, 1965.

Soon the Authority entered into a follow-up contract with Booz-Allen & Hamilton, Inc. under which the latter was to take on an assignment designed to assist the Directors in a variety of related tasks bearing on the original organization study.

This assignment sent the management team into a department-by-department study introducing into the varied operations new techniques of modern industrial engineering; modern methods of analysis and technology; sophisticated applications of systems and procedures.

It must be noted that the overall design of such a program was not motivated solely by a desire, however urgent, to place the vastly complicated transit operation into modern gear. The Authority recognized that application and workability of such a program of accelerated efficiency was certain to return many times over the initial cost of putting this kind of effort into operation.

The Area of Accounting

Soon after taking office the Board of Directors authorized the retention of the public accounting firm of Arthur Andersen & Co., to perform the following specific services for the Authority:

1. An audit of the accounts of the former Metropolitan Transit Authority as of August 3, 1964 cut-off date. 2. Assistance in determining requirements in connection with proposed bond issues and in preparing necessary financial statements for bond counsel. 3. Assistance in adapting the present accounting system to meet accounting requirements of the Massachusetts Bay Transportation Authority Act. 4. A detailed review of the present accounting procedures and controls. 5. Development and implementation of a sound budgetary system for control of operating and capital expenditures.

The Authority is confident that this kind of accounting, particularly with reference to the establishment of a performance budget, will provide the most modern means to control efficiently and economically the large expenditures necessary to the operation of an expanding mass transportation system.

Industrial Relations

In this area the Authority can point to a full fiscal period of labor peace and one important element which was evident in the new relations between a new Board and the various unions. Both sides showed an early and obvious disposition to get along with one another.

During the period labor problems were resolved without the necessity of going to arbitration; cases appealed from the General Manager to the Board level declined sharply; a "no-hire no promotions" policy was placed in effect, except in emergency situations,—a policy which by March of 1965, brought about a substantial reduction in the total number of employees, and reflecting, on an annual basis, a savings in the neighborhood of \$800,000.

Police Department

The Authority during the fiscal year appointed a Police Chief and a Deputy Chief of Police and filed legislation under which a police department would be given necessary and broad policing powers.

Transportation in a New Era

While planning, and revising from time to time its thinking about an exciting transportation future for the new Massachusetts Bay Transportation Authority district, the Authority watched carefully its day-to-day operations.

As general traffic conditions worsened and the automobile continued to reach for more and more space, the Authority decided against substantial service cuts. In fact, service was increased in certain areas.

Patronage was charted and was observed to pick up a few percentage points and MTA-Massachusetts Bay Transportation Authority revenues for 1964 as against 1963 rose by approximately \$900,000.

Between October 24 and November 15, special checks were made on all surface lines in order to determine revenue figures in each of the 14 cities and towns of the old MTA area.

Late in the year a new pedestrian underpass between the mezzanine level of Massachusetts Station (now Auditorium Station) was opened to the public. A few days later a new loop for cars using Government Center Station was placed in operation. Cars from Boston College, formerly terminating at Park Street extended their runs to Government Center.

In late December the Massachusetts Department of Public Utilities granted the Authority permission, on a trial basis, to operate diesel buses, equipped with catalytic mufflers (a device designed to reduce harmful exhaust ingredients) through the Harvard Square subway. First tests indicated that the public liked the experiment and subsequently the permission to operate was extended.

Similar customer approval was given an operation which sent buses along Massachusetts Avenue through Arlington and Cambridge on a limited-stop-basis during the morning rush peak.

The Authority discontinued "run-as-directed" bus operations at Arborway, Everett and Lechmere Stations and a similar operation over the Mattapan high speed line and ordered that these lines revert to scheduled trips.

Early morning and afternoon operation of the new Heath Street-Government Center operation was ordered to supplement the Huntington Avenue streetcar line.

Inasmuch as the facility was regarded as no longer needed for present or future operation, the Fields Corner Property was disposed of via public bidding initiated by the MTA. This sale transferred the valuable site to local tax rolls. About the same time the Authority gave preliminary approval for sale of its Clarendon Hill property in Somerville.

In Central Square, Cambridge, a set of exit stairs was closed to permit start on construction of a new escalator for commuters using that location which project was also initiated by the MTA.

Federal Capital Grant Projects

The Urban Mass Transportation Act of 1964 provides a three year capital grant and loan program for transit improvements throughout the country. This program, the first significant move by the Federal Government to balance its activities in urban transportation, provides \$375 million in grants over the three year period. Any one state is limited in the grants that it may receive—Massachusetts' maximum would be approximately \$47 million—and the Authority intends to receive its full share of these valuable funds to supplement its own authorized financing.

Late in 1964 the Board directed the planning staff to prepare a federal aid improvement program for early implementation. The result was a \$9.1 million station modernization program, and a preliminary application for federal funds was filed in January 1965. This program, intended to be the first phase of a program that ultimately will affect all station properties, was approved by the United States Housing and Home Finance Agency in February. This was the first grant made in the United States to a rapid transit system and subsequent approval of the project was received from the Advisory Board.

Soon thereafter the Authority again applied to the HHFA for capital assistance for a \$4.7 million project to acquire 150 new air-conditioned diesel buses. The HHFA deferred action on the request because the initial available funds had been temporarily exhausted for the United States fiscal year, but the Authority is optimistic that the grant will be received in the Fall of 1965. The new buses will replace older vehicles which have outlived their effective life period. Significantly, they will be the first air-conditioned vehicles on the Authority's property and reflect the Board's expressed desire to provide the kind of service that will attract new customers.

As federal funds are limited to one-half of the project cost until a comprehensive planning program is completed, the station program grant is limited to approximately \$4.5 million at present. However, the additional funds needed to achieve the maximum two-thirds grant have been set aside and will be available to the Authority when the planning program is satisfactorily completed. The one-third local matching funds will consist of \$2.7 million in state assistance and only approximately \$300,000 is to be provided directly by the Authority for the entire \$9.1 million project.

The station improvements to be carried out in the initial phase of the project represent the first substantial area in which the Authority can display its new approach to providing modern, effective and attractive rapid transit facilities. The general design standards and overall program objectives are being developed by the Authority's planning staff and consulting architects. Among the features will be an entirely new approach to lighting; a new graphics system with maps and related information for customers; attractive and functional turnstiles, exit gates and fare collectors' booths; benches; escalators; and closed circuit TV control. The station program also includes funds for improving parking lots and providing shelters at major bus stops.

The New Authority Symbol and Trademark

Shortly after the close of the first full year of operation the Massachusetts Bay Transportation Authority adopted a new symbol, a simple, encircled T. This new symbol will soon appear on vehicles, stations, uniforms, stationery and other property. It represents one more move away from the old, toward the creation of a bright, new image for the Massachusetts Bay Transportation Authority and for public transportation throughout Massachusetts.

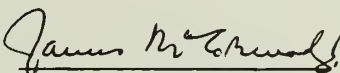


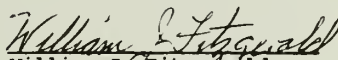
FINANCIAL STATEMENTS

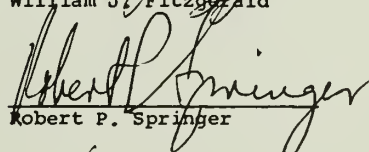
The balance sheet of the Massachusetts Bay Transportation Authority at July 31, 1965, related statement of income and cost of the service, and detail of operating expenses for the period August 4, 1964 through July 31, 1965, together with notes relating to these financial statements are appended to this report.

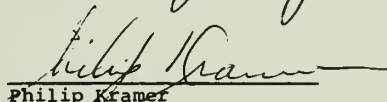
Respectfully submitted,

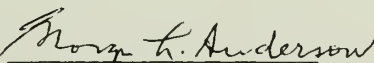
Board of Directors
Massachusetts Bay Transportation Authority

 Chairman
General James McCormack


William J. Fitzgerald


Robert P. Springer


Philip Kramer


George L. Anderson

November 1, 1965



ACCOUNTANT'S OPINION

ARTHUR ANDERSEN & CO.
BOSTON, MASSACHUSETTS

To the Board of Directors,

Massachusetts Bay Transportation Authority:

We have examined the balance sheet and statement of long-term debt of MASSACHUSETTS BAY TRANSPORTATION AUTHORITY as of July 31, 1965, and the related statements of revenue and cost of service and source and disposition of funds for the period August 4, 1964 to July 31, 1965. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 3 to the financial statements, the provision for depreciation for the period August 4, 1964 to July 31, 1965 is \$1,526,000 less than would be required to amortize the cost of transportation property over its estimated remaining useful life.

In our opinion, except for the effect of the deficiency in the depreciation provision referred to in the preceding paragraph, the accompanying financial statements present fairly the financial position of the Massachusetts Bay Transportation Authority as of July 31, 1965, and the results of its operations and the source and disposition of funds for the period ended July 31, 1965, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Boston, Massachusetts,
October 15, 1965.

BALANCE SHEET JULY 31, 1965
MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Assets

Transportation Property:

<i>At cost</i>	\$198,100,433
<i>Less—reserve for depreciation (Note 3)</i>	66,834,302
TOTAL transportation property	\$131,266,131

Current Assets:

<i>Cash</i>	\$ 2,488,446
<i>Special deposits including United States Treasury bills of \$3,436,495, at cost</i>	4,159,997
<i>United States Treasury bills, at cost</i>	8,767,783
<i>Accounts receivable—</i>	
<i>Commonwealth of Massachusetts</i>	18,603,226
<i>Other</i>	1,827,520
<i>Materials and Supplies, at average cost</i>	2,459,026
<i>Prepaid expenses</i>	334,107
TOTAL current assets	\$ 38,640,105

Deferred Charges:

<i>Unamortized expansion and modernization cost (note 2)</i>	\$ 1,753,239
<i>Other</i>	845,122
TOTAL deferred charges	\$ 2,598,361

TOTAL	\$172,504,597
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Reference is made to the accompanying Notes to Financial Statements

Liabilities**Long Term Debt:**

<i>Less current maturities see accompanying notes</i>	\$138,318,669
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Current Liabilities:

<i>Current maturities of long-term debt</i>	\$ 3,714,259
<i>Notes payable</i>	25,575,000
<i>Accounts payable</i>	2,410,560
<i>Accrued liabilities—</i>	
<i>Payroll</i>	781,772
<i>Interest</i>	1,011,651
<i>Other</i>	266,884
<i>Unredeemed tickets and tokens</i>	371,224
TOTAL current liabilities	\$ 34,131,350
Deferred Credits:	54,578

TOTAL	\$172,504,597
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STATEMENT OF REVENUE AND COST OF SERVICE
AUGUST 4, 1964 TO JULY 31, 1965
MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Operating Revenue:	
<i>Transportation</i>	\$38,714,256
<i>Other</i>	739,433
TOTAL operating revenue	\$39,453,689
Operating Expenses:	
<i>Transportation service</i>	\$28,263,987
<i>Maintenance</i>	11,267,507
<i>Electric power</i>	2,551,289
<i>Depreciation (Note 3)</i>	4,216,716
<i>General and administrative expenses—</i>	
<i>Salaries and wages</i>	3,162,333
<i>Employee pension and insurance benefits (Note 4)</i>	4,477,014
<i>Injuries and damages (Note 5)</i>	1,440,624
<i>Other</i>	1,079,308
TOTAL operating expenses	\$56,458,778
<i>Operating Loss</i>	\$17,005,089
<i>Other Income including interest of \$280,629</i>	(381,574)
<i>Interest on Long-Term Debt</i>	3,962,144
Cost of Service in Excess of Income	\$20,585,659
<i>Contract Assistance portion of the cost of service paid by the Commonwealth of Massachusetts in accordance with a contract for financial assistance between the Authority and the Commonwealth, pursuant to Chapter 563 of the Acts of 1964</i>	
	(2,500,000)
<i>Cost of Service reimbursed by the Commonwealth of Massachusetts in accordance with Section 8A of Chapter 544 of the Acts of 1947, as amended, to be assessed to the cities and towns constituting the Metropolitan Transit Authority</i>	
	(402,578)
Net Cost of Service (Note 6)	\$17,683,081

Reference is made to the accompanying Notes to Financial Statements

STATEMENT OF LONG-TERM DEBT JULY 31, 1965
MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Metropolitan Transit Authority Bond payable in semiannual installments of \$500,000 to December, 2020—interest payable is the interest payable by the Boston Metropolitan District on their contra debt and refunding issues, which for the period ended July 31, 1965, was 2.36% \$55,418,372

Rapid Transit Bond payable in annual installments of \$536,259 to November, 2024—interest is the actual interest on the City of Boston Transit Debt less income collected on the City's transit debt sinking funds, which for the period ended July 31, 1965, was 3.59% \$32,175,556

Equipment Serial Bonds:

Year of Maturity	Approximate Annual Payment	Interest Rate		
1970	\$ 16,000	2.00%	\$ 77,000	
	130,000	2.40	780,000	\$ 857,000
1971	84,000	1.50	\$ 502,000	
	139,000	3.10	973,000	1,475,000
1973	46,000	2.50	\$ 362,000	
	90,000	3.50	720,000	1,082,000
1974	8,000	3.00		79,000
1975	137,000	3.00		1,345,000
1977	218,000	3.00		2,622,000
1978	207,000	3.00		2,467,000
1981	127,000	1.50		2,034,000
1987	127,000	2.90		2,805,000
1988	131,000	2.90		3,013,000
1993	168,000	3.00	\$4,728,000	
	100,000	3.20	2,900,000	7,628,000
TOTAL	\$1,728,000			\$25,407,000

STATEMENT OF LONG-TERM DEBT JULY 31, 1965

(continued)

Construction Bonds:	
2.00% payable \$102,000 per annum to November 21, 1979, and \$4,590,000 on November 25, 1979	\$ 6,120,000
1.50% payable \$84,333 per annum to March 1, 1981, and \$3,781,667 on March 1, 1981	5,131,000
2.10% payable \$22,000 per annum to January 15, 1982, and \$990,000 on January 15, 1982	1,364,000
2.75% payable \$47,000 per annum to March 1, 1983, and \$2,115,000 on March 1, 1983	2,961,000
2.30% payable \$10,000 per annum to March 1, 1984, and \$450,000 on March 1, 1984	640,000
3.00% payable \$55,000 per annum to July 1, 1988, and \$2,475,000 on July 1, 1988	3,740,000
3.60% payable \$69,667 per annum to February 1, 1989, and \$3,135,000 on February 1, 1989	4,807,000
3.50% payable \$19,000 per annum to September 15, 1990, and \$855,000 on September 15, 1990	1,349,000
3.20% payable \$40,000 per annum to April 15, 1993, and \$1,800,000 on April 15, 1993	2,920,000
TOTAL construction bonds	\$ 29,032,000
SUB-TOTAL long-term debt	\$142,032,928
Less—Current Maturities of Long-Term Debt	(3,714,259)

TOTAL long-term debt	\$138,318,669
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Reference is made to the accompanying Notes to Financial Statements

STATEMENT OF SOURCE AND DISPOSITION OF FUNDS
AUGUST 4, 1964 TO JULY 31, 1965

Cash Balance August 3, 1964	\$1,975,695
Funds were Provided from:	
Commonwealth of Massachusetts— To be assessed to the cities and towns constituting the Metropolitan Transit Authority:	
Balance of 1964 deficit	\$4,322,380
Reimbursement of construction debt in accordance with Section 8A of Chapter 544 of the Acts of 1947	985,259
Contract assistance in accordance with Section 28 of Chapter 563 of the Acts of 1964	2,121,179
Issuance of short-term notes, net of payments	25,575,000
Sales of property	515,418
Working capital used	1,442,373
TOTAL funds provided	\$34,961,609
Funds were Used for:	
Cost of service in excess of income	\$20,585,659
Less—Depreciation charges to cost of service which did not require an expenditure of funds (\$4,216,716)	\$16,368,943
Purchase of U.S. Treasury Bills, net of sales	7,070,040
Payment of long-term debt	3,726,260
Increase in special deposits	2,937,624
Expenditures related to the expansion and modernization of the trans- portation system	2,360,351
Additions to transportation property	1,985,640
TOTAL funds used	\$34,448,858
Net Increase in Cash	512,751
TOTAL cash balance—July 31, 1965	\$2,488,446

Reference is made to the accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS JULY 31, 1965

1. Operations

Effective August 4, 1964, the Metropolitan Transit Authority was abolished and the operations previously conducted by it were assigned to the Massachusetts Bay Transportation Authority.

2. Unamortized Expansion and Modernization Costs

The Authority has deferred certain expenses related to the expansion and modernization of the transportation system. These costs will be amortized by charges to the cost of service beginning in 1966. Such costs include the Authority's share of contract assistance to the railroads who have temporarily continued passenger service until such time as permanent alternative facilities have been constructed by the Authority.

3. Depreciation

A recent study of the depreciation requirements of the Authority indicates that in order to amortize the cost of the Authority's property over its estimated remaining useful life requires an annual provision for depreciation of \$5,743,000. For the period August 4, 1964 to July 31, 1965, the Authority provided depreciation of \$4,217,000 by crediting payments on long-term debt of \$3,727,000 together with a provision for depreciation of \$490,000 to the reserve for depreciation. If depreciation had been provided by following the generally accepted method of amortizing the cost of property over its estimated remaining useful life, additional depreciation of \$1,526,000 would have been charged to the cost of service.

4. Pensions

The Authority has agreed to provide retirement benefits to employees through a contributory pension plan which requires the payment by the Authority of an amount not less than 6% of the payroll of employees who are members of the plan. The Authority is not legally obligated, under the agreement, to fund the actuarial cost of future benefits to present and retired employees based on past-service costs. At July 31, 1965, such unfunded costs exceeded \$35,000,000.

5. Injuries and Damages

The Authority is a self-insurer on claims for injuries and damages to the extent of \$50,000 per accident. Insurance coverage is carried on claims in excess of that amount up to a maximum limit of \$15,050,000 per accident. The Authority accounts for injuries and damages by charges to operating expenses as payments are made. The estimated liability for injury and damage claims not provided for at July 31, 1965, amounts to approximately \$3,000,000.

6. Net Cost of Service

The legislative act under which the Massachusetts Bay Transportation Authority was established provides, among other things, that the Commonwealth of Massachusetts shall reimburse the Authority for the net cost of service. The amounts reimbursed are then assessed to the cities and towns constituting the Authority.

Cover Map courtesy of the Trustees of the Boston Public Library

